

**BRISTOL WATER plc**

**REGULATORY ACCOUNTING STATEMENTS**

**YEAR ENDED 31 MARCH 2002**

**BRISTOL WATER plc**

## **REGULATORY ACCOUNTING STATEMENTS for the year ended 31 March 2002**

The Company was appointed by the Secretary of State for the Environment as a Water Undertaker under the Water Act 1989 and is required to comply with Conditions set out in its Instrument of Appointment ("the Licence").

The regulatory information that follows has been prepared in accordance with Condition F of the Licence and Regulatory Accounting Guidelines issued by the Director General of Water Services. These financial statements have been prepared for use by the Director General of Water Services. They may not be appropriate for any other purpose. In particular, as required by the Director General of Water Services, they do not correspond with the statutory accounts in respect of infrastructure renewals accounting.

The accompanying Historic Cost Accounts and Current Cost Accounting Statements were approved by the Board of Directors on 14 June 2002.

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## BRISTOL WATER plc

### HISTORICAL COST ACCOUNTING POLICIES

The comparative accounts for 2001 have been restated for two changes:

- A change to the basis of recognition of turnover from metered supplies following a general review of the appropriateness of accounting policies as occasioned by Financial Reporting Standard FRS18, "Accounting Policies" (note b)
- The application of FRS19 Accounting for deferred tax (note h)

The significant accounting policies adopted in the preparation of the accounts, which have been applied consistently, are set out below.

#### a. Accounting convention

The accounts of the company are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and with the provisions of the Companies Act 1985, except for the treatment of certain capital contributions as explained in Note d below.

#### b. Turnover

Turnover comprises charges to and accrued income from customers for water and other services, exclusive of VAT.

Income from metered supplies is based upon volumes of water invoiced plus estimated volumes of uninvoiced water delivered to customers during the year. In previous years this income was based upon actual volumes of water invoiced to customers during the year.

The accounts for the year ended 31 March 2001 have been restated on the new basis. The impact of the restatement is to increase turnover by £98,000 (2001 - £46,000), increase profits after tax by £88,000 (2001 - £41,000), increase accrued income in the balance sheet by £2,063,000 (2001 - £1,965,000), and increase net assets after provision for tax in the balance sheet by £1,856,000 (2001 - £1,768,000).

#### c. Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets and other assets.

##### i. Infrastructure assets

Infrastructure assets comprise the integrated network of impounding and pumped raw water storage reservoirs and water mains and associated underground pipework. Expenditure on such assets relating to increases in capacity, enhancements or planned maintenance of the network is treated as an addition to fixed assets and is included at cost.

##### ii. Other assets

Other assets include land and buildings, operational structures, fixed and mobile plant, equipment and motor vehicles. All are included at cost.

##### iii. Depreciation

Depreciation is charged, where appropriate, on a straight-line basis on the original cost of assets over their expected economic lives. Freehold land is not depreciated.

Depreciation of infrastructure assets takes account of planned expenditure levels to maintain the operating capability of the company's infrastructure assets in perpetuity. Regard is primarily taken of the five year plans submitted to the Office of Water Services for use in setting price limits under the RPI+K formula.

Other assets are depreciated after commissioning over the following estimated economic lives -

Operational properties and structures	40 to 100 years
Treatment, pumping and general plant	20 to 24 years
Computing and communications and telemetry equipment	3 to 15 years
Vehicles and mobile plant	5 to 7 years

**d. Grants and contributions**

Contributions received in respect of tangible assets other than infrastructure assets are treated as deferred income and amortised to the profit and loss account over the expected useful lives of the related assets. Contributions received in respect of enhancing the infrastructure network are not shown as deferred income but are deducted from the cost of the related fixed assets. This treatment is permitted by Statement of Standard Accounting Practice Number 4 but is a departure from the Companies Act 1985 which requires such contributions to be shown as deferred income. It is the directors' opinion that this treatment is necessary to show a true and fair view as the related assets do not have determinable finite lives and therefore no basis exists for the amortisation of the contributions. The effect on tangible fixed assets is shown in Note 7(d) to the accounts.

Grants and contributions in respect of expenditure charged to the profit and loss account are netted against such expenditure as received.

**e. Leased assets**

Assets financed by leasing agreements that transfer substantially all the risks and rewards of ownership of an asset to the lessee are capitalised and depreciated over the shorter of their estimated useful lives and the lease term. The capital portion of the lease commitment is included in current or non-current creditors as appropriate. The capital element of the lease rental is deducted from the obligation to the lessor as paid. The interest element of lease rentals and the depreciation of the relevant assets are charged to the profit and loss account.

Operating lease rental payments are charged to the profit and loss account on a straight-line basis over the term of the lease.

**f. Pension costs**

The cost of providing pension benefits is charged to the profit and loss account to spread the cost over the expected average service lives of employees. Differences between the amounts funded and amounts charged to the profit and loss account are recorded as prepayments or provisions, as appropriate, in the balance sheet.

The appropriate transitional disclosures under FRS17, "Retirement Benefits", the new accounting standard on pensions, are included in note 18 to the accounts.

**g. Research and development**

Research and development expenditure is charged to the profit and loss account as incurred.

**h. Taxation**

The charge for taxation is computed based on the profit for the period adjusted according to tax legislation.

Advance corporation tax in respect of dividends in previous years was written off to the profit and loss account unless it could be recovered against mainstream corporation tax in the current year or with reasonable assurance in the future. Credit is taken for advance corporation tax previously written off when it is recovered against mainstream corporation tax liabilities.

This year the company has adopted the principles of FRS19. Deferred tax has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future years is not probable. Deferred tax assets and liabilities recognised have been discounted at rates equivalent to the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates similar to those of the deferred tax assets and liabilities.

The accounts for the year ended 31 March 2001 have been restated on this basis. The impact of FRS19 is to reduce profits for the year by £2,266,000 (2001 - £630,000) and net assets by £15,236,000 (2001 - £12,970,000).

**i. Stocks**

Stocks are valued at the lower of cost and net realisable value. Following established practice in the water industry no value is included in the accounts in respect of water held in store.

**j. Financial instruments**

The company uses interest rate derivatives to manage exposures to fluctuations in interest rates. Positions on hedges are deferred and matched to the underlying transaction.

**BRISTOL WATER plc**

**REGULATORY ACCOUNTING STATEMENTS**

**HISTORICAL COST PROFIT AND LOSS ACCOUNT  
for the year ended 31 March 2002**

	Notes	Appointed business 2002 £000	Non- appointed 2002 £000	<b>Total 2002 £000</b>	Appointed business 2001 Restated £000	Non- appointed 2001 Restated £000	Total 2001 Restated £000
<b>Turnover</b>	1	66,005	2,008	<b>68,013</b>	63,296	1,591	64,887
Operating costs	2	(48,843)	(1,631)	<b>(50,474)</b>	(46,714)	(1,329)	(48,043)
Exceptional items	2	-	-	-	600	-	600
Operating income, being profit on disposal of tangible fixed assets		713	47	<b>760</b>	136	132	268
<b>Operating profit</b>		17,875	424	<b>18,299</b>	17,318	394	17,712
Other income, being rents		202	-	<b>202</b>	185	-	185
Net interest payable and similar charges	3	(4,578)	(20)	<b>(4,598)</b>	(4,486)	(57)	(4,543)
<b>Profit on ordinary activities before taxation</b>		13,499	404	<b>13,903</b>	13,017	337	13,354
Taxation on profit on ordinary activities	4	(3,501)	(121)	<b>(3,622)</b>	(3,298)	(101)	(3,399)
<b>Profit on ordinary activities after taxation</b>		9,998	283	<b>10,281</b>	9,719	236	9,955
<b>Dividends -</b>	5						
On irredeemable preference shares		(1,094)	-	<b>(1,094)</b>	(1,094)	-	(1,094)
On ordinary shares		(5,512)	-	<b>(5,512)</b>	(5,008)	-	(5,008)
Total dividends		(6,606)	-	<b>(6,606)</b>	(6,102)	-	(6,102)
<b>Profit retained for the year</b>		3,392	283	<b>3,675</b>	3,617	236	3,853
Balance on profit and loss account, beginning of year		41,535	53	<b>41,588</b>	37,918	(183)	37,735
<b>Balance on profit and loss account, end of year</b>		44,927	336	<b>45,263</b>	41,535	53	41,588
<b>Earnings per share -</b>	6			<b><u>153.2p</u></b>			<b><u>147.7p</u></b>

All of the turnover and operating costs above relate to continuing operations.

*The accompanying notes to the accounts form an integral part of this statement.*

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
for the year ended 31 March 2002**

	<b>2002</b>	2001
	<b>£000</b>	Restated £000
Profit attributable to Bristol Water plc shareholders	<b>10,281</b>	9,955
		<hr/>
Prior year adjustments net of attributable taxation	<b>(11,202)</b>	
	<hr/>	
Total losses recognised since last annual report	<b>(921)</b>	
	<hr/>	

The prior year adjustments are detailed on pages 3 and 4, within the accounting policies in respect of turnover and taxation.

*The accompanying notes to the accounts form an integral part of this statement.*

**BRISTOL WATER plc**

**REGULATORY ACCOUNTING STATEMENTS**

**HISTORICAL COST BALANCE SHEET  
at 31 March 2002**

	Notes	Appointed business 2002 £000	Non- appointed 2002 £000	<b>Total 2002 £000</b>	Appointed business 2001 Restated £000	Non- appointed 2001 Restated £000	Total 2001 Restated £000
<b>Tangible fixed assets</b>	7	178,151	1,439	<b>179,590</b>	166,441	1,497	167,938
<b>Current assets</b>							
Stocks	8	364	73	<b>437</b>	486	57	543
Debtors	9	12,168	143	<b>12,311</b>	12,303	244	12,547
Cash at bank and on deposit	10	14,676	-	<b>14,676</b>	9,469	-	9,469
		27,208	216	<b>27,424</b>	22,258	301	22,559
<b>Creditors: amounts falling due within one year</b>							
Short term borrowings	10	3,217	138	<b>3,355</b>	1,167	232	1,399
Other creditors	11	21,969	1,123	<b>23,092</b>	24,668	1,313	25,981
		25,186	1,261	<b>26,447</b>	25,835	1,545	27,380
<b>Net current assets/(liabilities)</b>		2,022	(1,045)	<b>977</b>	(3,577)	(1,244)	(4,821)
<b>Total assets less current liabilities</b>		180,173	394	<b>180,567</b>	162,864	253	163,117
<b>Creditors: amounts falling due after one year</b>	10						
Long term borrowings		81,197	58	<b>81,255</b>	69,326	200	69,526
Irredeemable debenture stocks		1,570	-	<b>1,570</b>	1,570	-	1,570
		82,767	58	<b>82,825</b>	70,896	200	71,096
<b>Deferred income</b>	14	8,396	-	<b>8,396</b>	8,467	-	8,467
<b>Provisions for liabilities and charges</b>	12	15,400	-	<b>15,400</b>	13,283	-	13,283
<b>Net assets</b>		73,610	336	<b>73,946</b>	70,218	53	70,271
<b>Capital and reserves</b>							
Called up share capital	15	18,498	-	<b>18,498</b>	18,498	-	18,498
Share premium account	16	4,415	-	<b>4,415</b>	4,415	-	4,415
Other non-distributable reserves	16	5,770	-	<b>5,770</b>	5,770	-	5,770
Profit and loss account	16	44,927	336	<b>45,263</b>	41,535	53	41,588
<b>Total shareholders' funds</b>	16	73,610	336	<b>73,946</b>	70,218	53	70,271
<i>Analysed as -</i>							
<i>Equity shareholders' funds</i>		61,110	336	<b>61,446</b>	57,718	53	57,771
<i>Non-equity shareholders' funds</i>		12,500	-	<b>12,500</b>	12,500	-	12,500

The accounts were approved by the Board on 14 June 2002 and signed on its behalf by -  
**A Parsons**, Chairman  
**A Nield**, Finance Director

*The accompanying notes to the accounts form an integral part of this statement.*

**BRISTOL WATER plc**

**REGULATORY ACCOUNTING STATEMENTS**

**HISTORICAL COST CASH FLOW STATEMENT**

**for the year ended 31 March 2002**

	Notes	Appointed business 2002 £000	Non- appointed 2002 £000	<b>Total 2002 £000</b>	Appointed business 2001 £000	Non- appointed 2001 £000	<b>Total 2001 £000</b>
<b>Net cash inflow from operating activities</b>	19	28,266	401	<b>28,667</b>	31,625	494	32,119
<b>Returns on investments and servicing of finance -</b>							
Other income received		202	-	<b>202</b>	185	-	185
Interest received		815	-	<b>815</b>	398	-	398
Interest paid		(4,150)	-	<b>(4,150)</b>	(3,243)	-	(3,243)
Interest paid on finance leases		(1,260)	(20)	<b>(1,280)</b>	(1,325)	(57)	(1,382)
Dividends paid on non-equity shares		(1,094)	-	<b>(1,094)</b>	(1,094)	-	(1,094)
		(5,487)	(20)	<b>(5,507)</b>	(5,079)	(57)	(5,136)
<b>Taxation -</b>							
Corporation tax paid		(1,894)	(101)	<b>(1,995)</b>	(2,728)	(36)	(2,764)
<b>Investing activities -</b>							
Purchase of tangible fixed assets		(21,557)	(139)	<b>(21,696)</b>	(12,227)	(170)	(12,397)
less contributions received		2,588	-	<b>2,588</b>	2,373	-	2,373
Infrastructure renewals expenditure		(4,541)	-	<b>(4,541)</b>	(5,461)	-	(5,461)
Proceeds on disposal of tangible fixed assets		793	95	<b>888</b>	126	229	355
		(22,717)	(44)	<b>(22,761)</b>	(15,189)	59	(15,130)
<b>Dividends paid on equity shares</b>		(5,151)	-	<b>(5,151)</b>	(4,629)	-	(4,629)
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>		(6,983)	236	<b>(6,747)</b>	4,000	460	4,460
<b>Management of liquid resources</b>							
being increase in short term deposits		(5,200)	-	<b>(5,200)</b>	(8,800)	-	(8,800)
<b>Financing -</b>							
Cash inflow from refinancing assets							
under new finance leases		8,159	-	<b>8,159</b>	-	-	-
New bank loan and overdrafts		5,222	-	<b>5,222</b>	5,000	-	5,000
Capital element of lease repayments		(1,191)	(236)	<b>(1,427)</b>	(1,083)	(460)	(1,543)
<b>Net cash inflow/(outflow) from financing</b>		12,190	(236)	<b>11,954</b>	3,917	(460)	3,457
<b>Increase/(decrease) in cash</b>	19	7	-	<b>7</b>	(883)	-	(883)
Cash, beginning of year		669	-	<b>669</b>	1,552	-	1,552
<b>Cash, end of year</b>		676	-	<b>676</b>	669	-	669

*The accompanying notes to the accounts form an integral part of this statement.*

# BRISTOL WATER plc

## REGULATORY ACCOUNTING STATEMENTS

### NOTES TO THE HISTORICAL COST ACCOUNTS

#### 1. TURNOVER

Turnover is wholly derived from water supply and related activities in the United Kingdom. The maximum level of prices the company may levy for the majority of water charges is controlled by the Director General of the Office of Water Services.

#### 2. OPERATING COSTS

The directors believe that the nature of the company's business is such that the analysis of operating costs required by the Companies Act 1985 is not appropriate. As required by the Act the directors have therefore adapted the prescribed format so that disclosure of operating costs is appropriate to the company's principal business.

a) Operating costs before exceptional items comprise -

	<b>2002</b>	2001
	<b>£000</b>	£000
Wages and salaries	<b>11,187</b>	11,201
Social security costs	<b>802</b>	791
Pension costs	<b>810</b>	682
Total payroll cost	<b>12,799</b>	12,674
less charged to fixed assets or to infrastructure renewals	<b>(2,721)</b>	(2,917)
<b>Net payroll cost</b>	<b>10,078</b>	9,757
<b>Other operating costs -</b>		
Operating lease rentals on plant and machinery	<b>49</b>	25
Research and development expenditure	<b>72</b>	175
Auditors' remuneration -		
Statutory audit	<b>49</b>	27
Non-statutory audit services including audit of regulatory returns	<b>28</b>	16
Other non-audit services mainly tax advice and compliance work	<b>20</b>	8
Raw materials, consumables and other charges less recoveries	<b>26,448</b>	25,043
<b>Total other operating costs</b>	<b>26,666</b>	25,294
Depreciation of tangible fixed assets -		
On owned assets	<b>4,454</b>	4,692
On leased assets	<b>2,763</b>	1,948
Amortisation of related deferred income	<b>(283)</b>	(278)
<b>Net depreciation</b>	<b>6,934</b>	6,362
<b>Infrastructure renewals charge</b>	<b>6,796</b>	6,630
<b>Total operating costs before exceptional items</b>	<b>50,474</b>	48,043

b) Exceptional operating items - Insurance rebate	-	(600)
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c) Employee details -

The average number of employees (full time equivalents) during the year was 430 (2001 - 463).

d) Directors' emoluments -

	2002 £000	2001 £000
Aggregate emoluments of all directors, being remuneration, bonus and benefits in kind	<b>719</b>	640

In addition, during the year directors exercised options to purchase shares in the parent company, Bristol Water Holdings plc, with a net gain on exercise of £9,000, of which £5,000 relates to the highest paid director.

In total, at 31 March 2002 five directors are accruing retirement benefits under a defined benefit scheme (2001 - five).

The remuneration of each director is established by the Remuneration Committee of the parent company on the basis of duties and responsibilities held using market data for comparable positions in other companies. Bonuses relate to the achievement of corporate objectives and are subject for the year to 31 March 2002 to a maximum of 30% of base salary. Details of options previously granted to directors are shown in the Directors' Report within the company's statutory accounts.

The aggregate emoluments of the highest paid director in the year were £193,000 (2001 - £179,000). At the end of the year, the highest paid director in the year had an accrued pension entitlement available on his normal retirement date of £34,000 (2001 - £27,000) and an accrued lump sum entitlement of three times that amount.

### 3. NET INTEREST PAYABLE AND SIMILAR CHARGES

The net interest payable and similar charges for the year comprise -

	<b>2002 £000</b>	2001 £000
On bank borrowings	<b>3,010</b>	2,587
On other borrowings	<b>1,096</b>	1,081
Finance leases	<b>1,335</b>	1,282
Less interest income	<b>(843)</b>	(413)
Payable to group companies	-	6
Net interest expense	<b>4,598</b>	4,543

#### 4. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation for the year comprises -

	2002 £000	2001 Restated £000
<b>a) Analysis of charge for the year all arising in the United Kingdom:</b>		
Current tax		
Corporation tax at 30% (2001 - 30%)	4,202	4,000
Advanced Corporation Tax written back	(473)	(345)
Adjustment to prior periods	(1,389)	44
	2,340	3,699
Deferred tax		
Current year movement	(176)	(53)
Adjustment to prior periods	2,851	(460)
Effect of discounting	(1,393)	213
	1,282	(300)
<b>Tax on profit on ordinary activities</b>	3,622	3,399

The adjustments to prior periods mainly relate to effects of an agreement with the Inland Revenue to accelerate certain capital allowances.

##### Factors that may affect future tax charges

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years.

Advanced Corporation Tax (ACT) has only been recognised as an asset, to the extent that it is foreseen to be recoverable. There is a further £3.7m not recognised.

Changes in the discount rate year on year may cause large fluctuations in the effective tax rate.

##### b) Factors affecting the tax charge

The current tax for the period is lower (2001 - lower) than the standard rate of corporation tax in the United Kingdom (30%). The differences are explained below:

	2002 £000	2001 £000
Profit on ordinary activities before tax	13,903	13,354
Profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom at 30% (2001 - 30%)	4,171	4,006
Effects of:		
ACT set off for the current year	(473)	(345)
Adjustment to tax in respect of prior period	(1,389)	44
Other	31	(6)
	2,340	3,699

## 5. DIVIDENDS

	<b>2002</b>	2001
	<b>£000</b>	£000
On non-equity shares -		
Irredeemable 8.75% preference shares -		
Paid	547	547
Payable 1 April	547	547
	<b>1,094</b>	1,094
On ordinary shares (equity shares) -		
Interim dividend paid of 26.4p (2001 - 24.0p)	1,583	1,440
Proposed final dividend of 65.5p (2001 - 59.5p)	3,929	3,568
	<b>5,512</b>	5,008
Total dividends paid and proposed	<b>6,606</b>	6,102

## 6. EARNINGS PER SHARE

Earnings per share have been calculated as follows -

	<b>2002</b>	2001
	<b>000</b>	Restated 000
On average number of ordinary shares in issue during the year -		
Earnings attributable to ordinary shares	£9,187	£8,861
Weighted average number of ordinary shares	5,998	5,998

As the company has no obligation to issue further shares, disclosure of earnings per share on a fully diluted basis is not required.

## 7. TANGIBLE FIXED ASSETS

a) The movement for the year comprises -

	Freehold land & operational structures £000	Plant and equipment £000	Infrastructure assets £000	Total £000
<b>Cost</b>				
At 1 April 2001	124,325	23,563	76,803	224,691
Additions	8,731	5,887	6,917	21,535
Disposals	(34)	(4,792)	-	(4,826)
Grants and contributions	(145)	-	(2,443)	(2,588)
<b>At 31 March 2002</b>	<b>132,877</b>	<b>24,658</b>	<b>81,277</b>	<b>238,812</b>
<b>Depreciation</b>				
At 1 April 2001	39,069	17,684	-	56,753
Charge for year	5,557	1,660	-	7,217
Disposals	(12)	(4,736)	-	(4,748)
<b>At 31 March 2002</b>	<b>44,614</b>	<b>14,608</b>	<b>-</b>	<b>59,222</b>
<b>Net book value</b>				
<b>At 31 March 2002</b>	<b>88,263</b>	<b>10,050</b>	<b>81,277</b>	<b>179,590</b>
At 31 March 2001	85,256	5,879	76,803	167,938

b) Included above at 31 March 2002 is freehold land of £1,317,000 (2001 - £1,307,000) and infrastructure assets of £81,277,000 (2001 - £76,803,000) not subjected to depreciation in the year.

- c) Included above at 31 March 2002 are fixed assets held under finance leases with a cost of £45,001,000 (2001 - £37,167,000) and cumulative depreciation of £16,874,000 (2001 - £14,418,000). Comparative figures have been restated following a comprehensive review of asset accounting records consequent upon the introduction of new systems. The previously published values were cost £38,513,000 and cumulative depreciation of £19,004,000. There is no Profit and Loss Account impact of the restatement.
- d) The net book value of infrastructure assets is stated after the deduction of contributions £30,646,000 (2001 - £28,202,000) as explained in Accounting Policy (d).
- e) The charge for depreciation includes £422,000 (2001 - £Nil) accelerated depreciation in respect of certain assets that are to be replaced significantly earlier than previously planned.
- f) Included in the preparation of its statutory accounts, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in FRS15: Tangible Fixed Assets. However for the purposes of the Regulatory Accounts, Ofwat has requested that FRS15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. A reconciliation to the balance sheet shown in the statutory accounts is set out below:

	Infrastructure Assets £000
<b>Cost</b>	
Cost at 31 March 2002 per Regulatory Accounts	81,277
Adjustment to opening balance	63,114
Infrastructure renewals expenditure capitalised in the year	4,541
Disposals	(1,604)
	<hr/>
Cost at 31 March 2002 per Statutory Accounts	147,328
	<hr/>
<b>Depreciation</b>	
At 31 March 2002 per Regulatory Accounts	-
Adjustment to opening balance	61,023
Depreciation charge for Infrastructure Renewals Expenditure	6,796
Disposals	(1,604)
	<hr/>
At 31 March 2002 per Statutory Accounts	66,215
	<hr/>
<b>Net book value</b>	
At 31 March 2002 per Regulatory Accounts	81,277
Adjustment for infrastructure renewals accounting	(164)
	<hr/>
At 31 March 2002 per Statutory Accounts	81,113
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## 8. STOCKS

Stocks comprise consumable stores. The replacement cost of stocks is not considered materially different from their carrying value in the balance sheet.

## 9. DEBTORS

Debtors comprise -

	2002	2001
	£000	Restated £000
Trade debtors	8,210	5,489
Due from group companies	139	1,168
Other debtors	1,058	1,107
Prepayments and accrued income	2,904	2,692
Infrastructure renewals expenditure in advance of charge	-	2,091
	<hr/>	<hr/>
	12,311	12,547
	<hr/>	<hr/>

The movement on the infrastructure renewals account is as follows -

	<b>2002</b>	2001
	<b>£000</b>	£000
Opening prepayment	<b>2,091</b>	3,260
Charge for the year	<b>(6,796)</b>	(6,630)
Expenditure	<b>4,541</b>	5,461
Closing prepayment/(accrual)	<b>(164)</b>	2,091

In the statutory accounts, as required by FRS 15, the prepayment/(accrual) is added to/(deducted from) fixed assets.

## 10. NET BORROWINGS

a) At 31 March 2002 net borrowings comprise -

	Term loans less cash £000	Finance leases £000	Debentures £000	<b>Total 2002 £000</b>	Total 2001 £000
Repayment due:					
Between one and two years	-	1,544	-	<b>1,544</b>	2,656
Between two and five years	11,731	5,840	5,283	<b>22,854</b>	13,453
After five years:					
Other than by instalment	15,000	-	1,776	<b>16,776</b>	16,776
By instalment	20,000	20,081	-	<b>40,081</b>	36,641
Irredeemable debentures	-	-	1,570	<b>1,570</b>	1,570
Total borrowings due after one year	46,731	27,465	8,629	<b>82,825</b>	71,096
Current portion of debt	222	1,570	1,563	<b>3,355</b>	1,399
less cash balances and short term deposits	(14,676)	-	-	<b>(14,676)</b>	(9,469)
Net borrowings	32,277	29,035	10,192	<b>71,504</b>	63,026

b) Details of borrowings not wholly repayable within five years -

	<b>2002</b>	2001
	<b>£000</b>	£000
Debentures (listed on the London Stock Exchange) -		
11.20% Redeemable 2005 to 2009	<b>1,776</b>	1,776
4.00% Consolidated irredeemable	<b>1,405</b>	1,405
4.00% Perpetual irredeemable	<b>55</b>	55
4.25% Perpetual irredeemable	<b>37</b>	37
3.50% Perpetual irredeemable	<b>73</b>	73
	<b>3,346</b>	3,346
Bank loans -		
Unsecured, repayable between 2006 and 2010, fixed interest at 7.75% pa to 2002 then LIBOR related, hedged by fixed interest rate swap at comparable rates until 2006	<b>20,000</b>	20,000
Unsecured, repayable 2008, fixed interest at 6.4% pa	<b>15,000</b>	15,000
Finance leases	<b>20,081</b>	20,890
	<b>58,427</b>	59,236

## 11. OTHER CREDITORS DUE WITHIN ONE YEAR

Other creditors due within one year comprise -

	2002	2001
	£000	Restated £000
Receipts in advance	2,655	6,455
Trade creditors	3,877	4,549
Due to group companies	985	940
Due to associated undertakings	409	265
Dividends payable	4,476	4,115
Tax, social security and payroll deductions	496	463
Corporation tax and advance corporation tax payable	1,532	2,172
Accruals and deposits received	8,662	7,022
	<b>23,092</b>	<b>25,981</b>

## 12. PROVISIONS FOR LIABILITIES AND CHARGES

	2002	2001
	£000	Restated £000
Restructuring costs - note (a)	-	313
Deferred taxation - note (b)	15,236	12,970
Infrastructure accrual - note (c)	164	-
	<b>15,400</b>	<b>13,283</b>

### a) Restructuring costs

Provision brought forward at 1 April	313	909
Utilised in year	(213)	(596)
Credited to Profit and Loss Account in year	(100)	-
	<b>-</b>	<b>313</b>

### b) Deferred taxation

	2002	2001
	£000	Restated £000
Analysis of deferred taxation liability:		
Accelerated capital allowances and capital element of finance leases	32,840	30,092
Deferred income	(2,519)	(2,540)
Short term timing differences	(698)	(604)
Unrelieved Advanced Corporation Tax	(184)	(1,168)
	<b>29,439</b>	<b>25,780</b>
Effect of discounting	(14,203)	(12,810)
	<b>15,236</b>	<b>12,970</b>

Deferred tax movement:

	2002
	£000
Provision brought forward at 1 April restated	12,970
Charged to Profit and Loss Account	1,282
Advanced Corporation Tax utilised	984
	<b>15,236</b>
Provision carried forward at 31 March	<b>15,236</b>

c) **Infrastructure accrual**

The movement on the infrastructure renewals account is as shown in note 9.

**13. FINANCIAL INSTRUMENTS**

The company's financial instruments, other than derivatives, comprise preference shares, borrowings, cash and various items, such as trade debtors and trade creditors, that arise directly from its operations. The sole purpose of these financial instruments is to finance the company's operations. The company also enters into interest rate swaps to manage the interest rate risk arising from its operations and sources of finance. It is the company's policy not to trade in financial instruments.

**Interest rate risk management**

The company borrows at both fixed and floating rates of interest, it then uses interest rate swaps to generate the desired interest rate profile and manage its exposure to interest rate fluctuations. The company's policy is to maintain the majority of its net debt on a fixed interest basis, using swaps where appropriate to manage this position. At the year end, 61% of the company's financial instruments were at fixed rates after taking into account interest rate swaps.

**Liquidity risk management**

It is company policy to ensure continuity of funding. At the year end at least 72% of its financial liabilities mature after five years. Short-term flexibility is achieved using overdraft facilities.

**Interest rate risk profile of financial liabilities**

The interest rate risk profile of the company's financial liabilities at 31 March 2002, after taking account of the interest rate swaps used to manage the interest profile, was -

	<b>Floating rate financial liabilities £000</b>	<b>Fixed rate financial liabilities £000</b>	<b>Total £000</b>
Financial liabilities	38,793	45,817	84,610
Irredeemable debentures	-	1,570	1,570
Irredeemable preference shares	-	12,500	12,500
<b>At 31 March 2002*</b>	<b>38,793</b>	<b>59,887</b>	<b>98,680</b>
Financial liabilities	25,890	45,035	70,925
Irredeemable debentures	-	1,570	1,570
Irredeemable preference shares	-	12,500	12,500
<b>At 31 March 2001*</b>	<b>25,890</b>	<b>59,105</b>	<b>84,995</b>

\* Short-term debtors, creditors, cash and deposits have been excluded from the above disclosures. All the company's creditors falling due within one year (other than lease borrowings) are excluded from the above table either due to the exclusion of short-term balances or because they do not meet the definition of a financial liability within FRS 13, such as tax balances.

At 31 March 2002, the company was party to one interest rate swap. This swap commenced in September 2001 and hedges for a five year period £20 million of borrowings that became floating rate at that time. For this period the total interest rate on the borrowings will be 8.42%.

	<b>Weighted average Interest rate %</b>	<b>Weighted average period for which rate is fixed Years</b>
Financial liabilities	7.95	4.64
Irredeemable debentures	3.98	-
Irredeemable preference shares	8.75	-
<b>As at 31 March 2002</b>	<b>8.01</b>	
Financial liabilities	8.36	5.65
Irredeemable debentures	3.98	-
Irredeemable preference shares	8.75	-
<b>As at 31 March 2001</b>	<b>8.26</b>	

Floating rate liabilities bear interest at rates based on relevant national LIBOR equivalents, which are fixed in advance for periods of between three months and one year.

#### **Interest rate risk of financial assets**

The financial assets comprise only of cash at bank and short-term deposits. Cash and short-term deposits are placed with banks and building societies on a rolling basis of up to six months earning interest based on LIBID equivalents.

#### **Borrowing facilities**

The company has a £5 million (2001 - £5 million) undrawn, committed borrowing facility available in respect of which all conditions precedent have been met. The facilities are floating rate and expire within one year. The facilities are subject to review during 2003 and incur non-utilisation fees at market rates.

During the year the company drew down £5 million of loan facilities that had been committed in the previous year. This loan is floating rate and matures on 23 February 2006. The company also agreed two finance leases for approximately £9 million in total. The leases are floating rate and are for periods of 7 and 20 years respectively.

#### **Fair values of financial assets and financial liabilities**

Although the company does not intend to trade in any financial instruments, the following table provides a comparison, by category, of the carrying amounts and the fair value of the group's financial assets and financial liabilities. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates. The table below summarises the methods and assumptions used for each category of financial instrument.

	<b>31 March 2002</b>		<b>31 March 2001</b>	
	<b>Book value £000</b>	<b>Fair value £000</b>	<b>Book value £000</b>	<b>Fair value £000</b>
<b>Primary financial instruments held or issued to finance the company's operations:</b>				
Cash at bank and short term deposits	14,676	14,676	9,469	9,469
Short-term borrowings	(3,355)	(3,355)	(1,399)	(1,399)
Long-term borrowings	(82,825)	(84,130)	(71,096)	(73,078)
Irredeemable Preference shares	(12,500)	(17,188)	(12,500)	(16,438)
<b>Derivative financial instruments held to manage the interest rate profile:</b>				
Interest rate swaps	-	(2,579)	-	(2,295)
	<b>(84,004)</b>	<b>(92,576)</b>	<b>(75,526)</b>	<b>(83,741)</b>

**Summary of methods and assumptions used -**

Short-term borrowings	The fair value of short-term borrowings approximates to the carrying amount because of the short maturity of these instruments.
Long-term borrowings	The fair value of the company's debentures has been calculated by discounting the expected cash flows at prevailing market rates including an estimated margin over gilts. Fixed rate bank loans and leases have been discounted on a similar basis but to LIBOR futures. In the case of floating rate facilities the fair values approximate to the carrying values as payments are reset to market rates at intervals of one year or less.
Preference shares	The company's preference shares are listed on the London Stock Exchange and their fair value is based on their quoted market price.
Interest rate swaps	Fair value is based on the market price of comparable instruments at the balance sheet date.

**Interest rate hedges**

The company hedges interest rate risk using interest rate swaps. The table below shows the extent to which the group has unrecognised off-balance sheet positions in respect of financial instruments used as hedges at the beginning and end of the year. It also shows how they are expected to be included in the profit and loss account by year. Relative to interest rates at the year end, the hedges increase/(decrease) reported interest cost as follows -

	£000
Unrecognised positions on hedges at 31 March 2001	2,295
Arising in previous years included in 2002 income	(529)
	<hr/>
<b>Positions not included in 2002 income</b>	
Arising before 1 April 2001	1,766
Arising in 2002	813
	<hr/>
	2,579
	<hr/>
<b>Positions on hedges at 31 March 2002</b>	
of which:	
Expected to be included in 2003 income	645
Expected to be included in 2004 income or later	1,934
	<hr/>

**14. DEFERRED INCOME**

Deferred income represents grants and contributions received in respect of non-infrastructure assets less amounts amortised to the profit and loss account.

	<b>2002</b>	2001
	<b>£000</b>	£000
Beginning of year	<b>8,467</b>	8,463
Contributions received	<b>212</b>	282
Less amortised	<b>(283)</b>	(278)
	<hr/>	<hr/>
End of year	<b>8,396</b>	8,467
	<hr/>	<hr/>

## 15. CALLED UP SHARE CAPITAL

The authorised and issued share capital of the company is -

	<b>Authorised</b>		<b>Issued and fully paid</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>£000</b>	£000	<b>£000</b>	£000
Ordinary shares	<b>5,857</b>	5,857	<b>5,857</b>	5,857
Non-voting ordinary shares	<b>141</b>	141	<b>141</b>	141
6.75% redeemable preference shares	<b>5,770</b>	5,770	-	-
8.75% irredeemable cumulative preference shares	<b>14,000</b>	14,000	<b>12,500</b>	12,500
	<b>25,768</b>	25,768	<b>18,498</b>	18,498

All shares have a nominal value of £1 each. The ordinary and non-voting ordinary shares rank pari passu in all respects except voting rights.

## 16. MOVEMENT IN SHAREHOLDERS' FUNDS

	Share capital	Share premium account	Capital redemption reserve	Profit and loss	<b>Total 2002</b>	Total 2001 Restated
	£000	£000	£000	£000	<b>£000</b>	£000
Beginning of year:						
Balance per previous financial statements						77,031
Effect of prior year restatements net of tax						
- Income from metered supplies						1,727
- FRS19 Accounting for Deferred Tax						(12,340)
Restated balance at the beginning of year	18,498	4,415	5,770	41,588	<b>70,271</b>	66,418
Profit for year	-	-	-	10,281	<b>10,281</b>	9,955
Dividends	-	-	-	(6,606)	<b>(6,606)</b>	(6,102)
End of year	18,498	4,415	5,770	45,263	<b>73,946</b>	70,271

## 17. COMMITMENTS AND CONTINGENCIES

- Capital commitments at 31 March 2002 contracted for but not provided were £7,493,000 (2001 - £7,368,000).
- Contingencies

The company is a member of a VAT group and is jointly liable for the VAT liabilities of its holding company. Other than as shown in these accounts the directors are not aware of any other contingent liabilities that require disclosure.

## 18. PENSIONS

### a) Accounting under SSAP24

Pension arrangements for the majority of the company's employees are provided through the company's membership of the Water Companies' Pension Scheme which provides defined benefits based on final pensionable pay. The principal scheme is the Bristol Water plc sub fund. The assets of the Scheme are held separately from those of the company and are invested by discretionary fund managers appointed by the trustees of the Scheme. The schemes have been closed to new entrants and all new eligible employees are now offered Stakeholder pensions.

Pension costs charged to the profit and loss account are computed in accordance with Statement of Standard Accounting Practice Number 24 to spread the cost of pensions over the employees' expected

working lives with the company. Contribution rates are determined by an independent actuary based on triennial valuations using the current unit method for death in service benefits and the projected unit method for other benefits. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on Scheme investments and the rate of increase in salaries, wages, pensions and dividends. The most recent triennial actuarial valuation at 1 April 1999 assumed that investment returns would be 8% per annum from equities and 6.5% from index-linked gilts, salaries and wages would increase on average by 5.5%, pensions by 3.5% and equity dividends by 4.7% per annum.

The actuarial valuation at 1 April 1999 showed the market value of Scheme assets relating to the company as £100.9m and that the actuarial value of these assets represented 113% of accrued benefits allowing for future earnings increases. A triennial valuation is due at 1 April 2002. This is currently being prepared by the actuaries and will be available during 2002.

During 1999/2000 and 2000/01, a number of employees left the company on severance terms which included pension enhancements and/or early entitlement to payment of pensions. The cost of this is actuarially assessed at approximately £3.8m. It is anticipated that the cost will be met from the scheme surplus.

The total pension charge for the year was £810,000 (2001 - £682,000) including £200,000 (2001 - Nil) of provisions made in accordance with SSAP24. Past service surpluses are amortised over the expected remaining service lives of members. There were no outstanding or prepaid contributions at the balance sheet date.

**b) Accounting under FRS17 “Retirement Benefits”**

The measurement provisions of FRS17 “Retirement Benefits” will not be mandatory for the company until the year ending 31 March 2004. The following transitional disclosures are required:

**Basis of valuation**

The actuarial valuation of the Bristol Water plc sub fund of the Water Companies’ Pension Scheme was updated to 31 March 2002, by an independent qualified actuary, using the following major assumptions in accordance with the transitional arrangements of FRS17.

**Contributions**

Contributions paid in the year ended 31 March 2002 were £610,000 (2001 - £682,000). In accordance with the terms of the scheme, Bristol Water plc is required to contribute at the rates of 9.8% for the main sub scheme and Nil% for the alternative sub scheme. This is subject to review after the next actuarial valuation of the scheme, due at 1 April 2002 and currently being prepared.

**Valuation basis**

Inflation	2.8%
Pension increases	2.8%
Salary increases	4.8%
Discount rate	6.1%

		<b>Value at 31 March 2002</b>
		<b>£000</b>
Expected long-term rate of return for:		
Equities	8.3%	77,092
Bonds	5.2%	11,198
Corporate bonds	6.1%	4,445
Property	6.7%	2,900
Cash	5.2%	1,597
		<hr/>
		97,232
Present value of the sub fund’s liabilities		(82,882)
		<hr/>
Surplus in the sub fund		14,350
Deferred taxation		(4,305)
		<hr/>
<b>Net pension asset</b>		<b>10,045</b>
		<hr/>

If the above amounts had been recognised in the financial statements, the company’s net assets and reserves at 31 March 2002 would have been:

	<b>2002</b>
	<b>£000</b>
Net assets:	
Net assets excluding pension asset	73,946
Pension asset	10,045
	<hr/>
Net assets including pension asset	83,991
	<hr/>
Reserves:	
Profit and Loss Account excluding pension asset	45,263
Pension asset	10,045
	<hr/>
Profit and Loss Account including pension asset	55,308
	<hr/>

## 19. ADDITIONAL INFORMATION TO THE CASHFLOW STATEMENT

### a) Reconciliation of operating profit to net cash inflow from operating activities –

	<b>2002</b>	2001
	<b>£000</b>	Restated £000
Operating profit	<b>18,299</b>	17,712
Depreciation, net	<b>6,934</b>	6,362
Profit on sale of fixed assets	<b>(760)</b>	(268)
Infrastructure renewals charge	<b>6,796</b>	6,630
	<hr/>	<hr/>
Cashflow from operations	<b>31,269</b>	30,436
Working capital movements -		
Stocks	<b>106</b>	268
Debtors	<b>(1,667)</b>	669
Creditors	<b>(728)</b>	1,342
Provisions	<b>(313)</b>	(596)
	<hr/>	<hr/>
Net cash inflow from operating activities	<b>28,667</b>	32,119
	<hr/>	<hr/>

### b) Reconciliation of net cash flow to movement in net borrowings -

	<b>2002</b>	2001
	<b>£000</b>	£000
Increase/(decrease) in net cash in year	<b>7</b>	(883)
Cash used to repay borrowings	<b>1,427</b>	1,543
Cash from new borrowings	<b>(13,381)</b>	(5,000)
Cash used to increase liquid resources	<b>5,200</b>	8,800
	<hr/>	<hr/>
(Increase)/decrease in net borrowings	<b>(6,747)</b>	4,460
Net debt not affecting cash flow	<b>(1,731)</b>	-
Net borrowings at beginning of year	<b>(63,026)</b>	(67,486)
	<hr/>	<hr/>
Net borrowings at end of year	<b>(71,504)</b>	(63,026)
	<hr/>	<hr/>

c) Analysis of changes in net borrowings during the year -

	Opening net borrowings £000	Cash flows in year £000	Debt maturities £000	New debt not affecting cashflow £000	<b>Closing net borrowings £000</b>
Cash at bank	669	7	-	-	<b>676</b>
Short term deposits	8,800	5,200	-	-	<b>14,000</b>
	<hr/> 9,469	<hr/> 5,207	<hr/> -	<hr/> -	<hr/> <b>14,676</b>
Borrowings due within one year	(1,399)	1,205	(3,161)	-	<b>(3,355)</b>
Borrowings due after one year	(71,096)	(13,159)	3,161	(1,731)	<b>(82,825)</b>
Net borrowings	<hr/> (63,026)	<hr/> (6,747)	<hr/> -	<hr/> (1,731)	<hr/> <b>(71,504)</b>

Cash at bank includes overnight deposits.

## 20. ULTIMATE PARENT COMPANY

The immediate and ultimate parent and controlling company is Bristol Water Holdings plc. Copies of its consolidated accounts are available from PO Box 218, Bridgwater Road, Bristol BS99 7AU.

**BRISTOL WATER plc**

**DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF FINANCIAL STATEMENTS**

The following statement, which should be read in conjunction with the statement of responsibilities set out in the independent auditors' report, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for that period.

In preparing the financial statements the directors are required to select and apply consistently suitable accounting policies framed by reference to reasonable and prudent judgements and estimates. Applicable accounting standards also have to be followed and a statement made to that effect in the financial statements, subject to any material departures being disclosed and explained in the notes to the financial statements. The directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume the company will continue in business. Directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure the financial statements comply with the Companies Act 1985. They are also responsible for taking reasonable steps to safeguard the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**By order of the Board**

**S C Robson**  
**Secretary**  
**14 June 2002**

**BRISTOL WATER plc**  
**APPOINTED BUSINESS**

**REGULATORY ACCOUNTING STATEMENTS**

**CURRENT COST ACCOUNTING STATEMENTS**  
**for the year ended 31 March 2002**

**BRISTOL WATER plc****REGULATORY ACCOUNTING STATEMENTS****CURRENT COST PROFIT AND LOSS ACCOUNT FOR THE APPOINTED BUSINESS  
for the year ended 31 March 2002**

	Notes	<b>2002</b>	2001
		<b>£000</b>	Restated £000
<b>Turnover</b>	C3	<b>66,005</b>	63,296
Current cost operating costs	C4	<b>(53,767)</b>	(50,627)
Operating income, being profit on sale of fixed assets		<b>437</b>	98
		<hr/>	<hr/>
		<b>12,675</b>	12,767
Working capital adjustment		<b>54</b>	30
		<hr/>	<hr/>
<b>Current cost operating profit</b>		<b>12,729</b>	12,797
Other income		<b>202</b>	185
Net interest payable		<b>(4,578)</b>	(4,486)
Financing adjustment		<b>860</b>	1,602
		<hr/>	<hr/>
<b>Current cost profit before taxation</b>		<b>9,213</b>	10,098
Taxation			
Current tax		<b>(2,219)</b>	(3,598)
Deferred tax		<b>(1,282)</b>	300
		<hr/>	<hr/>
<b>Current cost profit on ordinary activities</b>		<b>5,712</b>	6,800
Dividends		<b>(6,606)</b>	(6,102)
		<hr/>	<hr/>
<b>Current cost (loss)/profit retained</b>		<b>(894)</b>	698

*The accompanying notes to the accounts form an integral part of this statement.*

**BRISTOL WATER plc**

**REGULATORY ACCOUNTING STATEMENTS**

**CURRENT COST BALANCE SHEET  
FOR THE APPOINTED BUSINESS  
at 31 March 2002**

	Notes	2002 £000	2001 Restated £000
<b>Fixed assets</b>			
Tangible fixed assets	C5	1,445,998	1,418,476
Third party contributions since 1 April 1990		(45,213)	(42,148)
<b>Working capital</b>	C6	(3,226)	(5,285)
<b>Net operating assets</b>		<b>1,397,559</b>	<b>1,371,043</b>
Cash		14,676	9,469
Non-trade debtors		1,058	1,107
Non-trade creditors due within one year		(6,174)	(4,753)
Creditors due after one year		(82,767)	(70,896)
Provision for liabilities and charges			
Deferred tax		(15,236)	(12,970)
Other provisions		-	(313)
Dividends payable		(4,476)	(4,115)
<b>Net assets employed</b>		<b>1,304,640</b>	<b>1,288,572</b>
<b>Capital and reserves</b>			
Called up share capital		18,498	18,498
Share premium account		4,415	4,415
Other reserves		5,770	5,770
Profit and loss account		16,863	17,757
Current cost reserve	C7	1,259,094	1,242,132
		<b>1,304,640</b>	<b>1,288,572</b>

The accounts were approved by the Board on 14 June 2002 and signed on its behalf by -

**A Parsons**, Chairman  
**A Nield**, Finance Director

*The accompanying notes to the accounts form an integral part of this statement.*

**BRISTOL WATER plc****REGULATORY ACCOUNTING STATEMENTS****CURRENT COST CASH FLOW STATEMENT  
FOR THE APPOINTED BUSINESS  
for the year ended 31 March 2002**

	Notes	<b>2002</b> <b>£000</b>	2001 £000
<b>Net cash inflow from operating activities</b>	C8	<b>28,266</b>	31,625
<b>Returns on investments and servicing of finance -</b>			
Other income received		202	185
Interest received		815	398
Interest paid		(4,150)	(3,243)
Interest paid on finance leases		(1,260)	(1,325)
Dividends paid		(1,094)	(1,094)
		<b>(5,487)</b>	(5,079)
<b>Taxation -</b>			
Corporation tax paid		(1,894)	(2,728)
<b>Investing activities -</b>			
Purchase of fixed assets		(21,557)	(12,227)
less contributions received		2,588	2,373
Infrastructure renewals expenditure		(4,541)	(5,461)
Proceeds on disposal of fixed assets		793	126
		<b>(22,717)</b>	(15,189)
<b>Dividends paid on equity shares</b>		<b>(5,151)</b>	(4,629)
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>		<b>(6,983)</b>	4,000
<b>Management of liquid resources</b> being increase in short term deposits		<b>(5,200)</b>	(8,800)
<b>Financing -</b>			
Cash inflow from refinancing assets under new finance leases		8,159	-
New bank loan and overdrafts		5,222	5,000
Capital element of lease repayments		(1,191)	(1,083)
<b>Net cash inflow from financing</b>		<b>12,190</b>	3,917
<b>Decrease in cash</b>	C9	<b>7</b>	(883)
Cash, beginning of year		669	1,552
<b>Cash, end of year</b>		<b>676</b>	669

*The accompanying notes to the accounts form an integral part of this statement.*

## **BRISTOL WATER plc**

### **REGULATORY ACCOUNTING STATEMENTS**

#### **NOTES TO THE CURRENT COST ACCOUNTS FOR THE APPOINTED BUSINESS**

##### **C1. Current cost accounting policies**

These accounts have been prepared for the Appointed Business of Bristol Water plc in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business with the exception of assets acquired prior to 31 March 1990.

The accounting policies used are the same as those adopted in the statutory historical cost accounts except as set out below.

##### **a) Tangible fixed assets**

Assets acquired prior to 31 March 1990 and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of pre-31 March 1990 assets by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

##### **Land and buildings**

Non-specialised operational properties were valued on the basis of open market value for existing use at 31 March 1993 and have been expressed in real terms by indexing using the Retail Price Index ("RPI") since that date.

Specialised operational properties at 31 March 1993 were valued at the lower of depreciated replacement cost and recoverable amount and have been restated by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received since 31 March 1990 is deducted in arriving at net operating assets (as described below).

The valuation of land and buildings for both specialised and non-specialised properties is undertaken by a Chartered Surveyor employed by the company.

##### **Infrastructure assets**

Mains, impounding and pumped raw water storage reservoirs and dams are valued at replacement cost determined principally on the basis of data provided by the Asset Management Plan ("AMP"). A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP takes place. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

##### **Other fixed assets**

All other fixed assets except vehicles and mobile plant are valued periodically at depreciated replacement cost. Between Surface Investment Requirement reviews, values are restated for inflation as measured by changes in the RPI. Vehicles and mobile plant are stated at depreciated historical cost as differences between historical cost and current cost values are not considered material.

##### **Surplus land**

Surplus land is valued at recoverable amounts taking into account that part of any proceeds to be passed onto customers under Condition B of the Licence.

**b) Grants and other third party contributions**

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance brought forward is restated for the change in RPI for the year prior to inclusion in the carried forward balance.

**c) Real financial capital maintenance adjustments**

These adjustments are made to the historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

**Working capital adjustment**

This is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock less trade creditors.

**Financing adjustment**

This is calculated by applying the change in RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

**d) Basis of allocation and apportionment of costs and assets**

- between Bristol Water plc and its associated companies is at arm's length and no cross subsidy is occurring.
- between appointed and non-appointed businesses costs are attributed to the appropriate cost centres in the company's accounting system, which are identified as appointed or non-appointed. The majority of non-appointed costs are incurred directly with the remainder allocated on a time apportionment basis.
- operational costs of day to day collection, storage, treatment and supply of water are allocated as Opex along with the costs of technical and administrative support.
- capital costs are defined as those costs which are incurred in providing an additional or a replacement non-infrastructure asset. In addition, costs in respect of the provision of additional infrastructure capacity or enhancement of the network are also capitalised. These costs are incorporated in the Balance Sheet as additions to fixed assets. Where non-infrastructure assets have been replaced, their cost is removed from the Balance Sheet. There is no rule which requires capitalisation of any costs in excess of a specific value. However, it is unlikely that items with a value less than £1,000 in total would be capitalised.
- costs in respect of the maintenance of the network of pipes and pumped raw water storage reservoirs are treated as infrastructure maintenance and are charged as infrastructure renewals expenditure.
- costs are directly attributed to appropriate cost centres in the accounting system which are allocated as above. Manpower costs include an appropriate proportion of overheads in their allocation.

**C2. Appointed Business**

Appointed business for the purpose of these accounts is defined as the activities necessary for the company to fulfil its duties and functions as a Water Undertaker under its licence issued by the Department of Environment, Transport and the Regions. All other activities are classified as non-appointed business.

### C3. Analysis of turnover for the Appointed Business

	<b>2002</b>	2001
	<b>£000</b>	Restated £000
Measured	<b>19,679</b>	18,130
Unmeasured	<b>40,765</b>	39,497
Large user revenues	<b>4,186</b>	3,628
Other sources	<b>1,153</b>	1,171
Third party services	<b>222</b>	870
Total turnover	<b>66,005</b>	63,296

The increase in turnover is mainly due to the RPI plus K increase.

### C4. Commentary on 2001/02 operating costs

The climate levy came into effect from 1 April 2001 and increased power costs by £0.4m.

Insurance costs have increased this year due to premiums being pushed up by market forces. In addition the Products and Public liability insurance has increased by £50k following the termination of the Customer compensation policy previously held with Brunel which insured the first layer of liability. The exceptional credit of £0.6m in 2000/01 was an insurance rebate relating to the termination of this policy.

An important operational issue this year was the damage caused by a major water main burst on the A4 Portway in the confines of the Avon Gorge. Working together with Bristol City Council we were able to get the road quickly back into service and avoided any significant disruption to water supplies. The operating cost charged this year is £0.4m reflecting the estimated uninsured loss element of repairs. Permanent repairs are currently in progress, but the complex nature of the site means that it will take some months to complete.

The bad debt charge has increased reflecting a deteriorating collection experience following the prohibition of domestic disconnections. This has resulted in a doubling of last year's charge.

Third Party costs have decreased as the 2000/01 costs included £0.5m in respect of the completion of several large rechargeable mainlaying and diversion schemes

The depreciation charge includes £0.4m in respect of the accelerated write down of capital expenditure on service reservoirs which are being replaced to comply with the increased security requirements of the Drinking Water Inspectorate.

**C4. (Continued) Analysis of operating costs of the Appointed Business for 2001/02**

£000	Service analysis -			Business analysis -		
	Resources & treatment	Distribution	Sub-total	Customer services	Scientific services	Cost of regulation
<b>Direct costs -</b>						
Employment costs	1,842	2,141	3,983			
Power	1,437	1,314	2,751			
Hired and contracted	2,762	1,266	4,028			
Associated companies	4	1,795	1,799			
Materials and consumables	1,470	574	2,044			
Service charges	1,855	-	1,855			
Bulk supply imports	78	-	78			
Other direct costs	418	302	720			
<b>Total direct costs</b>	<b>9,866</b>	<b>7,392</b>	<b>17,258</b>	<b>2,049</b>	<b>1,262</b>	<b>372</b>
General & support costs	2,898	3,038	5,936	1,445	775	83
<b>Functional expenditure *</b>	<b>12,764</b>	<b>10,430</b>	<b>23,194</b>	<b>3,494</b>	<b>2,037</b>	<b>455</b>
<b>Total functional and business activity expenditure</b>						
Rates						29,180
Doubtful debts						3,571
						1,633
<hr/>						
Total operating expenditure before third party costs						34,384
Third party operating expenditure						878
<b>Total operating expenditure</b>						<b>35,262</b>
<hr/>						
<b>Capital costs -</b>						
Infrastructure renewals -						
Expenditure	710	3,831	4,541			
Movement in infrastructure renewal	(30)	2,285	2,255			
Current cost depreciation	7,427	4,565	11,992			
Amortisation of deferred credits			(283)			
<b>Total capital maintenance</b>			<b>18,505</b>			<b>18,505</b>
<b>Total operating costs</b>						<b>53,767</b>
<hr/>						
<b>Current cost MEA values -</b>						
Service activities and water supply total	526,696	905,876	1,432,572			
Services for third parties	1,864	11,562	13,426			
<b>Total</b>	<b>528,560</b>	<b>917,438</b>	<b>1,445,998</b>			

\* included within these costs is £2,603,000 in respect of reactive maintenance to infrastructure assets. Planned maintenance is included within the infrastructure renewals expenditure. £2,030,000 is included in respect of planned and reactive maintenance to non-infrastructure assets.

#### C4. (Continued) Analysis of operating costs of the Appointed Business for 2000/01

£000	Service analysis -			Business analysis -		
	Resources & treatment	Distribution	Sub-total	Customer services	Scientific services	Cost of regulation
<b>Direct costs -</b>						
Employment costs	1,426	2,472	3,898			
Power	1,133	1,433	2,566			
Hired and contracted	3,103	804	3,907			
Associated companies	2	1,431	1,433			
Materials and consumables	1,131	763	1,894			
Service charges	1,814	-	1,814			
Bulk supply imports	94	-	94			
Other direct costs	295	224	519			
<b>Total direct costs</b>	8,998	7,127	16,125	1,899	1,216	219
General & support costs	2,922	3,191	6,113	1,525	873	147
<b>Functional expenditure *</b>	11,920	10,318	22,238	3,424	2,089	366
<b>Total functional and business activity expenditure</b>						28,117
Rates						3,569
Doubtful debts						753
Exceptional items						(600)
Total operating expenditure before third party costs						31,839
Third party operating expenditure						1,475
<b>Total operating expenditure</b>						33,314
<b>Capital costs -</b>						
Infrastructure renewals -						
Expenditure	345	5,116	5,461			
Accrual	318	851	1,169			
Current cost depreciation	7,015	3,946	10,961			
Amortisation of deferred credits			(278)			
<b>Total capital maintenance</b>			17,313			17,313
<b>Total operating costs</b>						50,627
<b>Current cost MEA values -</b>						
Service activities						
and water supply total	517,803	887,337	1,405,140			
Services for third parties	1,909	11,427	13,336			
<b>Total</b>	519,712	898,764	1,418,476			

\* included within these costs is £2,682,000 in respect of reactive maintenance to infrastructure assets. Planned maintenance is included within the infrastructure renewals expenditure. £2,083,000 is included in respect of planned and reactive maintenance to non-infrastructure assets.

## C5. Analysis of current cost fixed assets for the Appointed Business

All the fixed assets of the Appointed Business are used in the water supply service.

	Specialised Operational Assets £000	Non- Specialised Operational Assets £000	Infra- Structure Assets £000	Other Tangible Assets £000	Total £000
Gross replacement cost -					
Balance 1 April 2001	438,186	15,521	1,219,801	4,825	1,678,333
RPI Adjustment	5,696	202	15,857	-	21,755
Disposals	(470)	(250)	-	(171)	(891)
Additions	13,872	140	6,921	463	21,396
<b>Balance 31 March 2002</b>	<b>457,284</b>	<b>15,613</b>	<b>1,242,579</b>	<b>5,117</b>	<b>1,720,593</b>
Depreciation -					
Balance 1 April 2001	255,805	426	-	3,626	259,857
RPI Adjustment	3,325	6	-	-	3,331
Disposals	(422)	-	-	(163)	(585)
Provision for year	11,275	152	-	565	11,992
<b>Balance 31 March 2002</b>	<b>269,983</b>	<b>584</b>	<b>-</b>	<b>4,028</b>	<b>274,595</b>
<b>Net Book Value at 31 March 2002</b>	<b>187,301</b>	<b>15,029</b>	<b>1,242,579</b>	<b>1,089</b>	<b>1,445,998</b>
Net Book Value at 1 April 2001	182,381	15,095	1,219,801	1,199	1,418,476

## C6. Working capital

	2002 £000	2001 Restated £000
Stocks	364	486
Trade debtors	8,210	5,489
Trade creditors	(1,133)	(1,035)
Short term capital creditors	(1,621)	(3,514)
Infrastructure renewals (accrual)/prepayment	(164)	2,091
Other trade accruals	(7,237)	(4,295)
Payments in advance	(2,655)	(6,455)
Tax and social security	(496)	(463)
Group trade (creditors)/debtors	(1,398)	(281)
Prepayments and accrued income	2,904	2,692
	<b>(3,226)</b>	<b>(5,285)</b>

**C7. Movement on current cost reserve**

	<b>2002</b>	2001
	<b>£000</b>	£000
Balance at 1 April	<b>1,242,132</b>	1,212,893
RPI adjustments -		
Fixed assets	<b>18,424</b>	31,765
Working capital	<b>(54)</b>	(30)
Financing	<b>(860)</b>	(1,602)
Grants and contributions	<b>(548)</b>	(894)
Balance at 31 March	<b>1,259,094</b>	1,242,132

**C8. Reconciliation of current cost operating profit to net cashflow from operating activities**

	<b>2002</b>	2001
	<b>£000</b>	Restated £000
Operating profit	<b>12,729</b>	12,797
Depreciation charges, net	<b>11,709</b>	10,683
Profit on disposal of fixed assets	<b>(437)</b>	(98)
Infrastructure renewals charge	<b>6,796</b>	6,630
Cashflow from operations	<b>30,797</b>	30,012
Working capital requirements -		
Stocks	<b>122</b>	280
Debtors	<b>(1,956)</b>	289
Creditors	<b>(330)</b>	1,670
Provisions	<b>(313)</b>	(596)
Working capital adjustment	<b>(54)</b>	(30)
Net cash inflow from operating activities	<b>28,266</b>	31,625

**C9. Analysis of changes in financing during the year for the Appointed Business**

## a) Reconciliation of net cashflow to movement in net borrowings

	<b>2002</b>	2001
	<b>£000</b>	£000
Decrease in net cash in year	<b>7</b>	(883)
Cash used to repay borrowings	<b>1,191</b>	1,083
Cash from new borrowings	<b>(13,381)</b>	(5,000)
Cash used to increase liquid resources	<b>5,200</b>	8,800
Decrease/(increase) in net debt	<b>(6,983)</b>	4,000
Net debt not affecting cash flow	<b>(1,731)</b>	-
Net borrowings at beginning of year	<b>(62,594)</b>	(66,594)
Net borrowings at end of year	<b>(71,308)</b>	(62,594)

b) Analysis of changes in net borrowings during the year

	Opening net borrowings £000	Cash flows in year £000	Debt maturities £000	New debt not affecting cashflow £000	Closing net borrowings £000
Cash at bank	669	7	-	-	676
Short term deposits	8,800	5,200	-	-	14,000
	9,469	5,207	-	-	14,676
Borrowings due within one year	(1,167)	963	(3,013)	-	(3,217)
Borrowings due after one year	(70,896)	(13,153)	3,013	(1,731)	(82,767)
Net borrowings	(62,594)	(6,983)	-	(1,731)	(71,308)

**C10. Summary of current cost profit and loss accounts for the Appointed Business**

Years ended 31 March -	1998 Restated £000	1999 Restated £000	2000 Restated £000	2001 Restated £000	2002 £000
Turnover	68,168	69,045	70,765	64,245	66,005
Current cost operating costs	(53,793)	(53,010)	(55,553)	(51,386)	(53,767)
Operating income/(expense)	(559)	(567)	491	99	437
Working capital adjustment	601	303	157	30	54
Current cost operating profit	14,417	15,771	15,860	12,988	12,729
Other income	77	119	120	188	202
Net interest	(4,027)	(4,830)	(5,123)	(4,553)	(4,578)
Financing adjustment	1,803	1,134	1,865	1,626	860
Current cost profit before taxation	12,270	12,194	12,722	10,249	9,213
Taxation	(4,256)	(3,868)	(4,769)	(3,347)	(3,501)
Current cost profit on ordinary activities	8,014	8,326	7,953	6,902	5,712
Dividends	(5,572)	(5,464)	(5,697)	(6,194)	(6,606)
Current cost profit/(loss) retained	2,442	2,862	2,256	708	(894)

The figures for 1998 to 2001 have been restated into 2001/02 values by applying RPI indexation using the change in average inflation rates over the financial years.

Turnover fell in 2001 as a result of the Po deduction resulting from the Final Determination at the Quinquennial Periodic Review.

Operating costs excluding depreciation have been reduced in real terms over the five years through achieving efficiencies, even though there is real growth in the expenditure incurred with the British Waterways Board on security of the Gloucester to Sharpness canal.

**C11. Summary of current cost balance sheets for the Appointed Business**

Years ended 31 March -	1998	1999	2000	2001	2002
	Restated	Restated	Restated	Restated	
	£000	£000	£000	£000	£000
Tangible fixed assets	1,483,061	1,493,019	1,432,990	1,436,917	1,445,998
Third party contributions since 1 April 1990	(33,758)	(37,573)	(40,288)	(42,696)	(45,213)
Working capital	(14,320)	(4,827)	962	(5,354)	(3,226)
Net operating assets	1,434,983	1,450,619	1,393,664	1,388,867	1,397,559
Cash	5,654	2,605	1,608	9,592	14,676
Non-trade debtors	839	490	639	1,121	1,058
Non-trade creditors due within one year	(4,173)	(3,624)	(4,505)	(4,815)	(6,174)
Dividends payable	(3,329)	(3,476)	(3,872)	(4,168)	(4,476)
Creditors due after one year	(58,128)	(72,123)	(69,481)	(71,818)	(82,767)
Provisions for liabilities & charges	0	0	(942)	(317)	0
Provision for deferred taxation	(8,771)	(11,164)	(12,788)	(13,139)	(15,236)
Net assets employed	1,367,075	1,363,327	1,304,323	1,305,323	1,304,640
Called up share capital	26,345	19,668	19,169	18,738	18,498
Share premium account	4,793	4,694	4,575	4,472	4,415
Other reserves	0	6,135	5,979	5,845	5,770
Profit and loss account	19,517	15,846	17,679	17,988	16,863
Current cost reserve	1,316,420	1,316,984	1,256,921	1,258,280	1,259,094
	1,367,075	1,363,327	1,304,323	1,305,323	1,304,640

Prior year figures have been restated into March 2002 values by applying RPI indexation using the change in inflation rates from each year-end.

The tangible fixed assets for the year ended 31 March 2000 are net of an AMP adjustment of £59,953,000.

Cash has increased in recent years as finance has been secured to fund the capital programme. There is a corresponding increase in creditors due after one year.

## C12. Transactions with associated companies

- a) Services received by the regulated business from associated companies in excess of £100,000 -

Nature of service	Associate	Turnover of associate £m	Terms of supply	Value of service £m	
				As opex	As capex
Mains and service laying engineering & construction	Walter Lawrence Civil & Mechanical Ltd	63.5	Competitive tender	2.5	3.0
			Other market testing	0.2	0.2
Carbon regeneration	Purton Carbons Ltd	1.2	Market tested	0.2	-
Management charge	Bristol Water Holdings plc	0.9	At cost	0.8	-
Managed Billing Service	Bristol Wessex Billing Services Ltd	7.4	Competitive tender	1.5	1.7

The Walter Lawrence Civil & Mechanical Limited 'Other Market Testing' Opex costs relate to the Portway Burst Main. Immediately after the main burst, Lawrence were appointed to carry out the necessary emergency works to stabilise the highway and enable a limited flow of traffic. This represents the £0.2m costs shown to date. After discussions involving Bristol Water plc, Lawrence, Consulting Engineers, the Highway Authority, the insurers and other utilities and the formulation of an acceptable design, cost negotiations commenced with Lawrence and a target cost was agreed. An independent cost consultant was appointed, who confirmed the target cost for the proposed design. The contractual arrangements are on a cost reimbursable partnering basis incorporating a pain/gain formula around an agreed target cost. The contract was awarded to Lawrence before the end of March 2002. The contract value is £0.8m. A settlement has been agreed with the insurers for a lump sum payment of £0.8m to cover both the initial works and permanent repairs but excluding third party costs.

- b) Services provided by the regulated business to associated companies in excess of £100,000 -

Staff have been seconded to Walter Lawrence Civil & Mechanical Limited during the year, and the salary cost of £229,000 was recharged.

- c) Basis of cost allocations between regulated and non-regulated businesses

Costs are attributed to appropriate cost centres in the company's accounting system, which are identified as regulated or non-regulated. The majority of non-regulated costs are incurred directly with the remainder allocated on a time apportionment basis.

- d) Borrowing / lending with associated companies and related facilities -

No sums were either lent to or borrowed by associated companies at the beginning or end of the financial year. No loans, guarantees or security were provided to associated companies by the regulated business during the year.

- e) Dividends paid to parent company -

Interim and final dividends amounting to £5.5m have been paid or proposed on the ordinary shares, all of which are held by Bristol Water Holdings plc. The dividend policy adopted by the directors takes into account a wide range of judgmental factors including, the amount of shareholder investment and how it changed during the year, the financial performance of the company, the achievement of efficiencies, the level of service provided to customers and consideration of the projected future position of the company.

**BRISTOL WATER plc**

**REGULATORY CERTIFICATE BY THE DIRECTORS**

**To the Director General of Water Services**

In accordance with its Instrument of Appointment under the Water Act 1989, the directors are of the opinion that the company is in compliance with paragraph 3.1 of Condition K of that Instrument which relates to control over the assets of the Appointed Business.

In the opinion of the directors the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out for at least the next twelve months the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under its Appointment) and will for at least the next twelve months have available to it management resources which are sufficient to enable it to carry out those functions.

The contract of appointment of the company's auditors, PricewaterhouseCoopers, satisfies the requirements of paragraph 9.2 of Condition F of the Instrument of Appointment that the auditors will provide such further explanation or clarification of their reports and such further information in respect of the matters which are the subject of his reports as the Director General of Water Services may reasonably require.

Signed on behalf of the Board -

**A Parsons**, Chairman

**A Nield**, Finance Director

14 June 2002

**BRISTOL WATER plc**  
**REGULATORY ACCOUNTING STATEMENTS**

**REPORT OF THE INDEPENDENT AUDITORS TO THE DIRECTOR GENERAL OF WATER SERVICES**

We have audited the regulatory historical cost statements which comprise the historical cost profit and loss account, the statement of total recognised gains and losses, the historical cost balance sheet, the cash flow statement, the related notes and the historical cost accounting policies ("the historical cost statements") and the current cost accounting statements which comprise the current cost profit and loss account, the current cost balance sheet, the cash flow statement, the related notes and the current cost accounting policies ("the current cost statements") (together, the "regulatory financial statements").

**Basis of preparation**

The regulatory financial statements have been prepared in accordance with Regulatory Accounting Guidelines.

The regulatory financial statements are separate from the statutory financial statements of the company and have not necessarily been prepared under the basis of Generally Accepted Accounting Principles. Financial information other than that prepared on the basis of Generally Accepted Accounting Principles does not necessarily represent a true and fair view of the financial position of a company.

The nature, form and content of regulatory financial statements are determined by the Office of Water Services. It is not appropriate for the auditors or the directors to assess whether the nature of the information being reported upon is suitable or appropriate for the Office of Water Services' purposes. Accordingly we make no assessment.

**Respective responsibilities of directors and auditors**

In addition to their responsibilities to prepare regulatory accounting statements in accordance with Regulatory Accounting Guidelines, the directors are also responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the Company as a water undertaker under the Water Industry Act 1991 for:

- a) ensuring that proper accounting records are maintained by the Appointee to enable compliance with the requirements of Condition F and having regard also to the terms of guidelines notified by the Director General of Water Services ("the Director"), to the Appointee from time to time;
- b) preparing on a consistent basis for each financial year regulatory accounting statements in accordance with Condition F, having regard also to the terms of guidelines notified by the Director from time to time, which so far as is reasonably practicable have the same content as the annual financial statements of the Appointee prepared under the Companies Act 1985 and which are prepared in accordance with the formats, accounting policies and principles which apply to those accounts;
- c) preparing regulatory accounting statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued by the Director from time to time; and
- d) preparing such other accounting and related information as is required by Condition F having regard also to the terms of guidelines issued by the Director from time to time.

It is our responsibility to form an independent opinion, based on our audit on those regulatory financial statements, performed in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, and to report our opinion to you.

Our responsibilities are to the members of the company. We do not accept any duty of care or other responsibility to any other person and deny all liability whether in contract, tort (including negligence), statutory duty or otherwise to any other person who chooses to rely on this report.

We read the other information contained in the regulatory financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the regulatory financial statements.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory

financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

Our opinion on the regulatory financial statements is separate from our opinion on the statutory financial statements of the company, which are prepared for a different purpose. We do not and will not, by virtue of this report assume any responsibility, whether in contract, negligence or otherwise, in relation to our audits of the company's statutory financial statements required by the Companies Act 1985; we and our employees shall have no liability whether in contract, negligence or otherwise to any parties other than the company in relation to our audits of the company's statutory financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the regulatory financial statements in terms of generally accepted accounting principles, the regulatory accounting guidelines and consistency with the statutory financial statements, except as modified in respect of the following:

- a) the historical cost regulatory financial statements on pages 2 to 21 have been drawn up in accordance with the Office of Water Services instruction of 29 April 2002 that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from generally accepted accounting principles is that an amount of £164,000 has been included under provisions for liabilities and charges in the regulatory balance sheet whereas it has been taken to increase the amount of fixed assets in the statutory balance sheet; and
- b) the current cost financial information on pages 24 to 36 has been drawn up in accordance with Regulatory Accounting Guideline 1.02 "Accounting for current costs", issued in May 1992 by the Office of Water Services".

### **Opinion**

In our opinion the regulatory financial statements and other information contain the information for the year to 31 March 2002 required to be published and submitted by Bristol Water plc to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the company as a water undertaker under the Water Industry Act 1991.

In respect of this information we report that in our opinion:

- a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument;
- b) the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guidelines 1-4 issued by the Office of Water Services;
- c) the regulatory historical cost statements on pages 3 to 22, present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the Appointee and its Appointed Business in accordance with the company's Instrument of Appointment and Regulatory Accounting Guidelines 2.02 and 4.01;
- d) the current cost financial statements on pages 25 to 37 have been properly prepared in accordance with Regulatory Accounting Guideline 1, "Accounting for Current Costs", issued in May 1992 by the Office of Water Services and Regulatory Accounting Guideline 4, "Analysis of Operating Costs and Assets", issued in June 1992 by the Office of Water Services.

PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
Bristol  
14 June 2002

Notes:

- a) The maintenance and integrity of the Bristol Water website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the regulatory financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.